Stanhope Capital

Stanhope Capital Fortnightly Bulletin

Period ending 30th June 2020

Tactical Positioning

As we discussed in our last Bulletin and have stated on several occasions before, the massive injection of liquidity by central banks continues to drive markets. Without doubt, we will have pullbacks and volatility could remain elevated but whilst central banks continue to support markets, asset prices are likely to remain at historically high levels. With this in mind, we continue to keep our close to neutral weighting in equities.

Market Moves

	Equities *(incl. Dividends)*						
30-Jun-20	World ($)	US ($)	Europe[1] (€)	UK (£)	Japan (¥)	EM ($)	Asia ($)
June	2.9%	1.9%	3.8%	1.7%	0.1%	6.6%	6.7%
Year to Date	-5.3%	-3.4%	-9.5%	-16.9%	-7.8%	-5.5%	-4.8%
	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	Gold ($)	WTI Oil ($)	EUR	GBP	JPY	UST 10Y[3]
June	2.3%	2.9%	10.7%	1.2%	0.5%	-0.1%	0bps
Year to Date	-19.4%	17.4%	-35.7%	0.2%	-6.5%	0.7%	-126bps

Note: [1]Europe excluding UK; [2]Bloomberg Commodity Index; [3]US Treasury 10 Year Yield shows absolute, not percentage, change in yield; Source: Bloomberg

Economic activity is slowly recovering. Lockdown restrictions have already been eased in many countries and economic indicators reflect a partial recovery in economic activity. However, activity will not return to pre-pandemic levels this year. We expect (and believe this is not just hope) that global GDP will return to the level reached in late 2019 by around the end of 2021, but the speed of the recovery is still uncertain and we see a greater disparity in economic forecasts than usual.

Global cases of COVID-19 passed 10 million this week, with over 500,000 deaths linked to the virus. The largest increase in new cases are currently in some South American countries and India, where the number of cases is growing at an average daily rate of over 3%. The number of reported cases in the US is still growing by around 1.5% a day and in the last two weeks, as lockdown restrictions ease, the rate appears to have accelerated. In some states, which were bolder in easing lockdowns, such as Texas and Florida, the rate of increase is still averaging over 3.5% a day. With this in mind, the EU decided to extend its travel ban for US residents.

Despite the continued spread of the virus, financial markets have been resilient. Over the quarter, the S&P 500 rose 20.5% on a total return basis, the best quarterly return since Q4 1998 and a stark contrast to the first quarter of the year (-19.6%), the worst quarter since Q4 2008. The main reason for the strength of markets is probably the action of central banks and particularly the Federal Reserve's ("Fed") liquidity programme. Fears that the real value of money might be eroded by the resulting increase in money supply provided a boost to gold which rose 13% during the quarter.

Markets have also benefited from governments supporting their economies through fiscal packages, with several new measures announced during the fortnight. At the end of the month, US Treasury Secretary Steven Mnuchin told the House Financial Services Committee that the Treasury aimed to implement another round of stimulus before August.

In Europe, President Macron and Chancellor Merkel jointly announced that the €750bn EU Recovery plan "won't fail because of us, but there will be no new proposal" whilst in the UK Prime Minister Boris Johnson announced his "build, build, build" strategy, bringing forward £5bn of planned infrastructure spending.

China passed a new security law in Hong Kong which comes into force at the start of July. US Commerce Secretary Wilbur Ross said that “with the Chinese Communist Party’s imposition of new security measures on Hong Kong, the risk that sensitive US technology will be diverted to the People’s Liberation Army or Ministry of State Security has increased, all while undermining the territory’s autonomy.” The US Commerce Department revoked preferential treatment of Hong Kong over China in matters of trade and the UK government has said that it will offer British National Overseas passport holders in Hong Kong the ability to move to the UK for five years and apply for British citizenship.

Economic Updates

In general, economic releases reflected the recovery in economic activity since the very low levels seen in March and April. US consumer spending rose 8.2% (+9.3% expected) in June although the overall level remains far below pre-pandemic levels. The University of Michigan Sentiment survey rose from 72.3 to 78.1 (79.2 expected), but remains near 7-year lows. Pending home sales rebounded by 44.3% in May, well above the 19.3% rebound expected, whilst the Dallas Fed manufacturing activity also beat expectations to rise from -49.2 to -6.1 (-21.4 expected).

Sentiment data in Europe was positive. French consumer confidence rose to 97 points from 93 (95 expected), and Italian consumer confidence rose 7.3 points to 100.6 (97.5 expected). These numbers show improvement from the April lows but, as in the US, there remains a long way to go before spending returns to pre-Covid levels.

UK public finance data for May showed the government’s debt-to-GDP ratio rose above 100% for the first time since 1963. Retail sales in the UK rose 12.0% over the month of May, well above the expected rise of 6.3% and recovering from the 18.0% fall seen in April.

The latest PMIs (purchasing managers index) out of China surprised to the upside with manufacturing PMI rising to 50.9 (vs. 50.5 expected) while the non-manufacturing PMI printed at 54.4 (vs. 53.6 expected).

JONATHAN BELL
IVO COULSON
ROB CHAMBERS
2nd July 2020

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